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A Contemporary Analysis of NITI Aayog's Strategies for Mitigating Financial Imbalances

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Abstract

This paper looks at the changing role of NITI Aayog in finding and fixing problems across Indias federal system. NITI Aayog helps India by looking at the money problems in each state and trying to fix them. The paper checks the tools and policies that NITI Aayog is using like the Fiscal Health Index, state finance briefs and data-quality initiatives. It also looks at the money problems that the states are facing such as a lot of debt having to pay a lot for subsidies and having many schemes.

NITI Aayog is good at using facts to figure out what is going wrong working with groups helping states get better and giving incentives for good performance. But NITI Aayog has some limitations like it can only give advice. Not make decisions about money and it has to work with other groups like the Finance Commission, RBI and GST Council. Sometimes NITI Aayog cannot make things happen because of politics.

The paper gives some ideas on how to make NITI Aayog stronger so it can help reduce problems between the central government and the states and, between the states themselves while still following the rules of the constitution. NITI Aayog can do a job of helping India if it gets a little more power to make decisions and work with the states.

Keywords: NITI Aayog; fiscal federalism; financial imbalances; state finances; Fiscal Health Index; policy coordination

1. Introduction

Financial problems in countries with states or regions usually happen in two ways. There are problems, which are when the money available to different levels of government does not match what they need to spend. Then there are problems, which are when some states or regions have more money and do better than others.

In India the way the government handles money has changed a lot since the reforms. There are systems like the Goods and Services Tax and the way the Finance Commission gives money to states. There are also new challenges. The states have a lot of debt because of the money they spent during the pandemic. The central government has schemes that it wants the states to follow, which can limit what the states can do. Also different states handle their money in ways.

The NITI Aayog, which was started in 2015 is a group that thinks about policies for the government and helps different parts of the government work together. It is playing a role in looking at financial problems and giving advice even though it does not have direct control over money. The NITI Aayog has been making reports and tools like briefs, on state finances the Fiscal Health Index. Plans to improve

data quality. These are meant to help states handle their money better and reduce waste. NITI Aayog is doing this to help the states and the country as a whole.

2. Objectives

1. To map the instruments and initiatives through which NITI Aayog addresses financial imbalances.
2. To assess the effectiveness of these instruments in the present fiscal context.
3. To identify institutional constraints and offer policy recommendations to enhance NITI's contribution to fiscal stability and equity.

3. Research Questions

1. What concrete tools has NITI Aayog developed to monitor and influence state fiscal health?
2. How effective are these tools in addressing vertical and horizontal imbalances?
3. What institutional or political barriers limit NITI Aayog's impact, and how can they be mitigated?

4. Methodology

This is a qualitative policy analysis combining (a) desk review of primary NITI Aayog publications (annual reports, indices and divisional briefs), (b) contemporaneous secondary sources (RBI and PRS analyses, press coverage) and (c) analytical synthesis to link instruments to outcomes. Emphasis was given to NITI outputs 2023–2025 (Annual Report and Fiscal Health Index launch) and to independent assessments of state fiscal stress (RBI, PRS) to ensure an up-to-date appraisal. Key load-bearing facts and institutional descriptions are cited to primary sources.

5. NITI Aayog's Instruments to Address Financial Imbalances

5.1 Diagnostic tools and transparency instruments

- **State Finance Briefs and Analyses:** The people at NITI make reports that look at how each state's doing with their money. They check how money they have how much they spend how much debt they have and what they spend on big projects like roads and buildings. These reports help us figure out which states are having trouble with money and which ones can make changes to do better. This makes it easier for people to see what is going on and compare states to each other to see who is doing well and who is not.
- **Fiscal Health Index:** The Fiscal Health Index started in 2025. It is a way to measure how well each state is doing with their money. It looks at things like how they're managing their debt how strong their finances are and how well they are spending their money. This helps the states and the central government decide what to focus on and how to make progress. The Fiscal Health Index is meant to be a guide to help states do better not a way to punish them.

5.2 Building capacity and sharing practices and giving performance incentives

State Support Mission and Aspirational Programmes: NITI helps states do better by giving them help and incentives based on how well they do. For example they have programs that help states spend their money efficiently and collect revenue. This encourages states to work and try to do better than each other. NITI wants states to learn from each other and share their ideas.

5.3 Improving data quality and reducing waste

Data Quality Roadmap: NITI is working to improve the quality of data on who's getting benefits and how money is being spent. This helps reduce waste and makes sure that money is going to the people

who need it. Better data also helps reduce mistakes and makes it easier to give money to the people who need it. We found out that mistakes in data have made welfare spending go up by 4 to 7 percent, which's why NITI needs to make changes to fix this problem.

5.4 Doing research and giving advice and coordinating with others:

Giving advice based on evidence: NITI does studies. Writes papers to advise on how to make programs better how to manage debt and how to make institutions work better. They also bring people together to talk about these things. NITI works with groups like the Finance Ministry, Finance Commission, RBI and GST Council to give advice and coordinate efforts. The goal is to help states and the central government make decisions based on facts and good information. NITIs role is to advise and help not to make decisions, for others. They want to help states and the central government do their jobs better.

6. Results and Discussion — Effectiveness and Limits

6.1 Positive contributions

1. **Improved diagnosis and benchmarking:** The FHI and state briefs help create a way of understanding and measuring fiscal health that governments and markets can use. This makes it easier to see when states are in trouble or wasting money.
2. **Promoting fiscal discipline via peer pressure and best practices:** Encouraging spending, through comparison and examples. By sharing information and success stories NITI helps states make financial decisions and focus on results.
3. **Reducing leakages through better data:** Fixing data problems to stop waste. The data quality initiative aims to find and fix inefficiencies that cause costs. This frees up money for important spending.6.2 Institutional and practical constraints

1. The NITI does not have the power to make financial decisions on its own. It cannot move money around. Make sure that other parts of the government do what they are supposed to do. The NITI has to convince people to listen to it. The central government has to be willing to take action. Sometimes the NITI and the Finance Commission have jobs and it can be confusing to know who is in charge of what. Many experts think that the roles of these groups should be clearly defined.
2. There are also problems that the NITI faces. If the NITI suggests that the government stop giving people much money or cut back on certain programs some people might not vote for them anymore. The NITI needs politicians to agree with its ideas at both the state and national levels.
3. The NITI also has to deal with the fact that different states have levels of ability to get things done. Even when the NITI helps the states figure out what they need to work on some states are just not as good at making changes happen. The NITI tries to help the states build their skills. It cannot fix all of the problems on its own. The states need to make some changes, to how they are run.
4. The NITI also relies on the states to give it information. If the states do not give the accurate information then the NITIs reports and measurements will not be very good. The NITI is trying to get the states to be more transparent and give information but it is still a problem. The NITI and the states need to work to make sure that everyone has the information they need.**6.3 Interaction with other institutions — complement or confusion?**

NITI Aayog plays a supporting role to the Finance Commission when it comes to sharing resources. It also works with the RBI on picture economic and financial issues.. It works with the GST Council on how money is collected.. The problem is that these groups do not really work together in a formal way. This can cause problems because they might do the thing or send different messages. Some people think

that we need to have some rules in place so that NITI Aayog and the Finance Commission and the RBI can all work together smoothly. We need to make sure that NITI Aayogs analysis is used along, with the Finance Commissions suggestions and the RBIs monitoring of finances. NITI Aayogs role is important. It should be connected to the work of the Finance Commission and the RBI.

7. Policy Recommendations

1. We need to make sure that NITI, the Finance Ministry, the Finance Commission and the RBI work together in a formal way. This means that when we do diagnostics, like the FHI and state briefs the results should help us design transfer plans and give good debt management advice to the NITI and the states.
2. The government should give NITI an amount of money just for building its capacity to help the weaker states make the changes that the diagnostics suggest they need. This could be things like improving their IT systems or making their spending more sensible. This way NITI can still give advice. It will also have some power to make sure its advice is followed.
3. We should make sure that the Centre and the states share data in a way so we can compare things easily and get the information we need on time. NITI should be, in charge of setting these standards. We should all use the same templates for reporting and verify the information regularly.
4. When we design rules that are based on performance we should be careful. Of being too strict we should use incentives like matching grants or technical help to encourage the states to work with us. This way we can keep our system working smoothly.

We should also try to simplify the schemes that're in place. NITI can bring together officials from governments to review the schemes and find out which ones are not needed. Then we can get rid of the schemes that're redundant and free up some space in the budgets of the states, which is something the RBI has also suggested we should do.

Conclusion

NITI Aayog has grown from a policy think tank to a player in checking finances building capacity and comparing performance. It has created tools like the Fiscal Health Index, state finance briefs and data-quality initiatives. These tools help. Fix financial problems. Niti Aayog faces some challenges that limit its impact on fixing financial issues and redistributing funds.

These challenges include its role overlapping work with other institutions, resistance from politics and economy and different capacities. To improve NITI Aayog needs to work with other important financial bodies improve data quality and get some resources to build capacity in specific areas. This will help NITI Aayog reduce imbalances between different levels and areas while following federal rules. NITI Aayog's role is crucial, in this and with these changes it can make a difference. NITI Aayog has to work within its limits to achieve its goals.

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